

DETERMINANTS OF THE GROWTH OF GOVERNMENT
EXPENDITURE IN THAILAND, 1960-1979

by

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ABSTRACT

This study has attempted to identify the determinants of the growth of government expenditure in Thailand, both at aggregated and disaggregated levels for the period 1960-1979. In doing so, following Wagner's law (1883) of "expanding scale of state activity" the central working hypothesis examined in this study was that the share of government expenditure in GNP rises with the level of economic development.

It was found that, in general, the share of total government expenditure rose with the rise in the level of per capita income. However, a deeper look suggested that the rate of increase in the share of government expenditure (total) in GNP with respect to the level of per capita GNP is falling and that led to the argument that there may be a critical limit beyond which the share may cease to rise or may even fall.

The comparative study of the growth pattern of government expenditure and revenue suggested the likelihood of bridging the existing and widening gap between the level of expenditure and revenue in the years to come. From this it appeared that there would not be a serious revenue constraint for the further expansion of the Thai Government sector for many years to come.

Despite the presence of supporting factors the expectation of the rising share of general public services expenditure of the government in GNP with the level of economic development was not supported statistically. This was thought to have happened due to the presence of a lag in the adjustment of wages of civil servants. The share of this category of expenditure in GNP was found to be related only to the current year's share of total government expenditure in GNP implying that the total amount of the government budget matters much more than its distribution to individual categories.

The share of the government's defence expenditure in GNP was found to grow with the level of economic development and to shift upwards when existing military alliance is dissolved. The normalization of relations with rival nations was argued to slow down the speed of arms build up.

The notion of the income elastic government social services was found to exist as the share of social services expenditure in GNP grew with the level of per capita GNP. The demonstration effect is considered to influence the relative size of social services expenditure. The tendency to spend more due to the merit of spending in avoiding misfortunes and suffering was realised. It is also expected that the provision of social security benefits is, perhaps, narrow and irresponsive to the needs of the people.

It was found that in the early stages of economic development the importance of government investment in total (national) investment is increasing and in the later stages of economic development the importance of government investment in relation to national investment is falling.

The existence of the substitution relationship between the defence and capital expenditure of the Thai Government was observed.

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